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SPECIAL AD HOC COMMITTEE

SWNCC SECOND PHASE STUDY ON JAPAN

8 August 1947

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SWNGC SECOND PHASE STUDY ON JAPAN

Reference: SWN-5275

I. ANALYSIS OF THE CURRENT SITUATION IN JAPAN

A. Basic Forces

The occupation is the most important single factor in Japan today. More as a result of occupation policies than of Japanese initiative, long-term political and economic reforms have been inaugurated and forces hostile to traditional Japanese concepts have been given greater freedom of action than ever before. By providing a continuous and stable focus of authority, the occupation has prevented political instability in Japan from becoming so serious as to give rise to acute disorder or political stalemate. In the economic field, the occupation, although representing a drain on Japanese resources, has given support to the Japanese economy in the form of critically needed imports.

Political instability is and may be expected to remain an important factor in Japan for some time to come. This instability, in part a reflection of an as yet incomplete substitution of new attitudes and institutions for such elements of the old order as have been weakened or destroyed by defeat and occupation, has been intensified by the inability of successive governments to cope with chronic conditions of economic crisis.

As a consequence of occupation policy, Japan's most reactionary and militaristic leaders have been removed from public office and the governmental institutions previously utilized to suppress opposition to the status quo have been partially or completely destroyed. Purged elements still exercise their influence behind the scenes, however, while the ideas that these elements represent are far from extirpated.

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Two elections have indicated the continuing conservatism of a majority of the Japanese people. Japan's two conservative parties, the Liberals and Democrats, have demonstrated certain weaknesses in their failure to adopt all possible constructive policies within the limits of defeat and occupation; in their reluctance to enforce effectively measures, largely occupation-inspired, that might be expected to lead to economic reform and mitigation of economic crisis; and in their inability to free themselves to any considerable extent from the domination of prewar leaders. The Socialist Party, supported by a large segment of the trade-union movement, represents a new and growing force but one that has thus far been handicapped by political inexperience, internal controversy, and, more recently, by the far reaching compromises into which it has been forced by its desire to participate in a coalition government with the conservative Democratic Party. The Communist Party, representing a very small but vocal minority, has been politically isolated by the continued refusal of the Socialist Party to join with it in any major united front activity. In the trade-union field, Communist penetration has been an important but by no means determining factor in the policies adopted and attitudes displayed by a significant portion of organized labor.

Chronic economic crisis has been simultaneously a cause and, to a lesser extent, a consequence of political instability. Acute and continuing economic dislocation has been manifested in a serious food shortage, rampant black markets, inflation, labor unrest, and slow progress in industrial rehabilitation.

The development of a situation that has made inevitable the appearance of these conditions must be attributed to factors largely beyond the control of post-surrender governments. Japan in the prewar period relied on imports for approximately 20 percent of its food supply and nearly all of its coking coal, petroleum, phosphate rock, textile raw materials, and iron ore. For access

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to foreign sources of supply, Japan now is dependent upon assistance from the United States and is in competition with other areas in need of relief. Assistance furnished by the US to Japan thus far has been barely sufficient to prevent disease and unrest.

. In addition, Japan's mines, factories, and transportation system have suffered from war-produced lack of maintenance and repair; uncertainty has been created by the failure to obtain an Allied decision on reparation removals; war devastation has caused a serious housing shortage; and Allied-imposed economic reforms, such as the effort to obtain a broadened basis of economic control and ownership, have perhaps caused essentially short-run dislocations; and the burden of occupation costs has been severe.

The responsibility for intensifying rather than mitigating these difficulties, however, must be attributed to the Japanese Government's failure to institute and enforce such controls as have been within its powers. The Japanese Government remains responsible for initiating and maintaining a firm control over wages and prices and a strict rationing program for essential commodities. Measures taken for these purposes by the Japanese Government have not been sufficiently comprehensive, properly timed, or administered with sufficient vigor to assure success.

B. Objectives and Methods of Other Great Powers

The ten foreign powers represented on the Far Eastern Commission have, in general, accepted as inevitable the dominant position of the United States in Japan, although they have not always accepted without opposition or criticism the consequences of this position. Certain powers, moreover, notably Australia, New Zealand, and the Soviet Union, have made clear their desire for a greater voice than they now possess in determining policy for Japan and have exhibited particularly strongly a resentment,

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common to some extent to most of the FEC powers, against what they regard as the failure of SCAP to accord to the FEC the authority that they regard as its due.

The position of Australia and New Zealand in this respect has been publicly based in large part on their alleged fear that what they regard as a soft United States policy may undermine their security by creating the conditions for a resurgence of Japanese militarism. Similar fears have been voiced extensively by the censored Chinese press and occasionally by the Chinese National Government but have not been reflected, to any important extent, in Chinese policy in the Far Eastern Commission and the Allied Council. The USSR, on the other hand, although perhaps in part inspired by fears of a resurgence of Japanese militarism per se, appears to be more deeply motivated by the desire to keep Japan from falling completely within the United States orbit. It has, therefore, offered more opposition to the US in the FEC and in the Allied Council for Japan than have most of the other member powers. In its propaganda broadcasts the USSR has been unremittingly critical of the occupation and has been followed in this line, within the limits of censorship, by the Japanese Communist Party.

II. ANALYSIS OF ASSISTANCE ALREADY RECEIVED

A. Political and Economic Premises on Which Economic Aid Was Based

American post-surrender assistance to Japan has been based on the desire to prevent such widespread disease and unrest as would endanger Allied troops occupying Japan and, further, to help in achieving the objectives of the occupation. (See section III, page 6.)

B. Summary of Assistance Given

An estimate of the assistance that has been given Japan is summarized below:

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(In millions of US Dollars)

Source of Assistance	September 1945 to December 31, 1946	January 1, 1947 to June 30, 1947	Total
US Appropriations	234	178	412
CCC Credits	111	25	136
FLC Credits	<u>3</u>	<u>5</u>	<u>8</u>
TOTAL	348	208	556

C. Economic Assistance Pending or Contemplated

The War Department's request to Congress for funds amounting to US \$725 millions for government and relief in occupied areas in the period July 1947 to June 1948 included a request for US \$236 million to provide essential civilian supplies for Japan. Since congressional appropriation received amounted to a total of only US \$600 million, in all probability the original allocation for Japan will be reduced. In addition, it is estimated that transfers valued at US \$9 million will be made from military stocks. Credits extended by FLC and still available amount to US \$7 million. This assistance in total, however, is expected to be sufficient only for continued prevention of disease and unrest.

More substantial economic assistance is contemplated in SWNCC 381, Revival of the Japanese Economy. The program outlined in this proposal submitted to SWNCC by the Department of State would entail the development by SCAP and the Japanese Government of a detailed import-export-production-consumption plan for economic recovery. Japanese domestic consumption would be held to a minimum, food and raw materials over and above the disease and unrest level essential to increased production would be provided Japan, and every effort would be made to maximize Japanese exports. Essential imports would be provided through proceeds from exports, the use of convertible assets in Japan, private and governmental loans, and somewhat larger appropriations in 1948 than are planned under the present program.

SECRETD. Contribution of Present Aid to Japan's Recovery

Economic assistance extended to Japan to date has provided only minimum quantities of the most critically needed commodities.

E. Political Effects of Present Aid

Aid to Japan, principally in the form of food imports, has undoubtedly helped, in conjunction with the presence of the occupying forces, to mitigate the violent political unrest that might be expected in a country after a prolonged war that imposed great sacrifices ended in military defeat. A governmental organization, although subject to considerable instability, has been maintained and has facilitated the development of the legal and political framework of a democratic system. Reversion to prewar forms of political extremism and the growth of a strong Communist movement has so far been averted. US aid already extended, although a bare minimum, has been an important factor in making the Japanese, at least at present, friendly to the US.

III. UNITED STATES OBJECTIVES IN JAPAN

United States policy is directed toward insuring that Japan will not again become a menace to the peace and security of the world and that Japan follows a policy favorable to the international interests and policies of the United States. It seeks the continued demilitarization and disarmament of Japan and the establishment and perpetuation of an independent peaceful government based on and responsive to the popular will expressed through democratic institutions.

IV. AND V. NATURE, MAGNITUDE, AND TIMING OF MEANS REQUIRED TO REACH OBJECTIVESA. Economic Means1. Nature

The establishment of a viable economy in Japan is essential to the achievement of US political and economic objectives there. The present scale of economic aid to Japan, far from leading toward such a viable economy, is not enough

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to prevent continued economic deterioration. The United States is, therefore, faced with the necessity of increasing its economic aid to such an extent as to promote Japanese economic recovery to a level that will enable Japan to pay its own way in the world.

2. Magnitude

Such inponderables as the minimum Japanese requirements for food consonant with an accelerated recovery program, the rate at which the Japanese economy can be organized for production, the degree of effectiveness of the economic controls that must be imposed, and the availability and marketability of Japanese exports make it extremely difficult to estimate the magnitude of economic aid required to create a viable Japanese economy. It is clear that this aid must be substantially larger than that envisaged under present policies.

Under very optimistic assumptions a program aimed at the economic recovery of Japan would require the expenditure of US appropriated funds of US \$450 million; the expenditure of convertible assets in Japan valued at US \$150 million; and the use of looted but unidentified convertible assets in Japan valued at US \$50 million as collateral for self-liquidating loans. (See section VIII, page 11.)

The actual cost to the United States of such a program, however, will almost certainly be greater than indicated above. And in addition to providing financial assistance, it would be necessary for the United States to render extensive technical and supervisory service to the Japanese, to assist in the procurement of those essential commodities that continue to be in short world supply, and to assist in obtaining loans from private sources.

3. Timing

The sooner a program of economic recovery can be begun, the less will be the total outlays required of the United States. It seems unlikely, however, that such a program could

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be approved and started before the end of 1947, or that realistically, Japan could be rendered self-supporting before 1951 or 1952.

Planning should be started at once, however, and the Japanese should be encouraged to initiate and demonstrate their ability to enforce effectively the improved economic controls that will be necessary for their successful recovery. These controls should include fiscal measures designed to curb inflationary trends; an effective rationing system that will more equitably distribute essential consumers' goods; and an allocation system that will maximize the effect on economic recovery of the utilization of scarce raw materials and producers' goods. The development of a sound program for economic recovery in Japan should improve Japan's credit standing and enhance its ability to obtain private loans.

B. Political Means

During the occupation United States objectives in Japan have been furthered by a far reaching program of political reform inspired by SCAP and carried out under SCAP supervision. The signing of a peace treaty will presumably represent both an international recognition of the fact that institutionally the basic measures of reform have been accomplished and a Japanese commitment to maintain and expand these reforms. Effective implementation of these reforms to the point where democratic processes can be said to be firmly established will, however, require continued assistance and supervision both by the organization established to enforce the treaty and by the United States. Such supervision, as far as possible, should take the form of guidance, anticipation, and early correction of potential violations of political clauses in the treaty rather than of the enforcement of sanctions after a serious violation has already occurred. The role of the United States in this process will be an important one, since it may be expected to assume a major position in the organization established to enforce the treaty and since it may independently, through diplomatic channels,

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offer the Japanese expert political guidance and assistance. Japanese liberals, moreover, will look to the United States for protection and for assistance in implementing reforms for which they feel that the United States is primarily responsible, while the Japanese, as a whole, will accept continued political supervision as a concomitant of economic aid.

C. United Nations Assistance

It seems unlikely that, in its present stage of organization, the United Nations will have any immediate major contribution to make to the achievement of US objectives in Japan. Sponsorship of Japanese membership in the United Nations after the peace treaty has been signed, however, will have valuable psychological effects in indicating to the Japanese that continued progress along democratic lines will lead to the full restoration of a respected place among the family of nations.

D. Military Means

No program of military assistance to Japan is contemplated.

The determination of the US to prevent a resurgence of Japanese military potential has been expressed by the US proposal for a four-power treaty of disarmament and demilitarization for Japan to supplement the peace treaty. Another US objective is to prevent Japan from falling under the influence or control of any foreign power whose national aims are inimical to the development of a stable, peaceful, and democratic Japan. The maintenance of US military forces in Pacific areas is necessary in order to provide a positive indication of the determination of the US to support these two objectives. Maintenance of adequate military bases on Okinawa after the withdrawal of occupation forces from Japan would make available the military means for this purpose.

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E. Informational and Cultural Means

After the treaty goes into effect, it will be necessary to rely more heavily than at present on essentially educational techniques in combating the a resurgence of old forces and nurturing the growth of the new. The fields that call for greatest effort are those that bear the greatest promise for democratic processes in Japan, such as education, civil liberties, and labor unions.

Communist propaganda, subject at present to control, is sure to increase in scope and intensity after the occupation ends. An aggressive informational and cultural program will be necessary both to keep American prestige high and to combat anti-democratic propaganda.

Although the freeing of commercial channels will help, a government program will be necessary to supplement private enterprise with services such as libraries, documentary films, and exhibits. Shortwave broadcasts reach only a limited audience directly but reach a vast audience through private listening posts that serve the other media of public information. The interchange of persons is a fundamental necessity. Implementation of the Fulbright Act is being delayed at the present time because of occupation controls on Japan's economy but should be carried out as soon as possible.

VI. PROBABLE AVAILABILITY OF ECONOMIC AID FROM EXISTING SOURCES UNDER PRESENT POLICIES

Under present policies, economic aid to Japan from the United States is limited primarily to imports required for the prevention of disease and unrest. Expenditures of appropriated funds and transfers from military stocks for this purpose are estimated at somewhat less than US \$245 million in the period July 1, 1947 to June 30, 1948. (See section II, C, page 5.) Other potential sources of US credits to Japan include the Export-Import Bank;

the CCC; and private loans, for which Japanese-owned convertible assets held in custody by SCAP could be used as collateral. Among these potential sources, private loans and Export-Import Bank appear most promising but cannot be expected to bear more than part of the burden of Japan's needs.

No credits from foreign governments appear to be immediately in prospect except as the operation of open account trading arrangements results in the extension of short-term credits. Since Japan is not a member of the International Bank or the Monetary Fund, loans from these organizations are not immediately in prospect.

VII. ADDITIONAL MEASURES REQUIRED FROM THE UNITED STATES

No measures are contemplated in addition to those already discussed.

VIII. NATURE OF ARRANGEMENTS WITH FOREIGN GOVERNMENTS TO ASSURE ACCOMPLISHMENTS OF OBJECTIVES

Economic recovery in Japan is impossible without a large flow of imports into Japan from foreign countries as well as sufficient sales abroad of Japanese goods to finance later imports. Such a volume of trade will be impossible in the near future without the economic cooperation of the countries, particularly those in the Far East, that are potential sources of raw materials for Japan and potential markets for Japanese products. Adequate production and economic organization within Japan will also require active political collaboration by many of the Allies if the reparations program and the peace settlement are to aid rather than hinder Japanese recovery. The peace settlement, for example, should avoid creating impediments to the US program of aid to Japan and should create a political and economic atmosphere conducive to Japanese recovery as well as machinery that will foster this recovery.

Allied cooperation should also be sought in obtaining approval of the use of looted but unidentified Japanese convertible assets

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as collateral for self-liquidating loans. This approval is a requirement if US financial assistance is to be reduced.

To assist in securing such cooperation, SWNCC 381 provides that the United States, following the precedent set by the Secretary of State in dealing with Germany at the recent meeting of the Council of Foreign Ministers in Moscow may agree to consider a limited program for payment of reparations out of current Japanese production if the other Far Eastern countries insist on such an agreement as a condition to their cooperation in carrying out the plans for Japanese economic recovery proposed in SWNCC 381. Any program for reparations out of current production to be considered by the United States should become effective only after Japan becomes self-supporting and would of course, have to contain strong safeguards for US budgetary interests and for the Japanese living standard.

IX. EFFECTS UPON JAPAN AND UPON U.S. FOREIGN POLICY OF U.S. REFUSAL TO GRANT AID OR OF FAILURE OF THE PROGRAM UNDERTAKEN

Should the US refuse to grant economic aid beyond the present scale, Japan's economy would continue to deteriorate, making it impossible to achieve US objectives. Complete withdrawal of US aid before Japan becomes self-supporting would be followed by an immediate breakdown of the Japanese economy. Indigenous sources of food are inadequate, and, since Japan is not producing sufficient goods for export to pay for its essential imports, mass starvation would soon follow the cutting off of external assistance. The struggle to survive in Japan would precipitate economic and political chaos that might lead to the ultimate assumption of control by extremists of the Right or Left. Such a breakdown, whether it is gradual or precipitous, would represent a complete loss of the American investment in a stable, democratic, and peaceful Japan. This loss would not only have serious political and economic repercussions in the Far East as a whole but would also jeopardize the United States program for world-wide economic recovery and political stabilization.

X. POSSIBLE EMERGENCY SITUATIONS

A. Soviet Domination of Korea

If the USSR were to extend its control over all of Korea, almost all land areas within an 800-mile radius of Tokyo not under Japanese sovereignty would be under Soviet domination. Such an eventuality would also jeopardize the normal flow of trade between Japan and Korea. The pressure on Japan to move into the Soviet orbit would be increased considerably and would be almost irresistible if not counteracted by a strong United States program of economic and political aid.

B. Failure of the USSR to Participate in Peace Treaty Negotiations or to Ratify the Treaty

Initially, the failure of the Soviet Union to participate in peace treaty negotiations might facilitate the drafting of a final document. Failure of the USSR to ratify a peace treaty, however, would give it the opportunity to enter into independent negotiations with Japan and to hold out the possibility of more favorable terms as a means of obtaining influence over Japan. Of even greater importance would be the fact that failure to ratify the peace treaty would leave the Soviet Union legally free to ignore or obstruct enforcement measures taken under the treaty. It is therefore desirable that every effort short of sacrificing basic US objectives be made to insure Soviet ratification of the peace treaty and, failing this, that international controls over Japan be so organized as to minimize the potential effects of Soviet non-participation.

A P P E N D I X

SWNCC SECOND PHASE STUDY ON JAPAN

SUMMARY

United States policy is directed toward insuring that Japan will not again become a menace to the peace and security of the world and that Japan follows a policy favorable to the international interests and policies of the US.

The political reforms required for the achievement of US objectives have been initiated under the occupation, and their full implementation will require continued assistance and supervision by the organization established to enforce the peace settlement and by the United States. US military forces should be maintained in the Pacific area to provide a positive indication of the determination of the US to support its objectives. An aggressive informational and cultural program will be necessary both to keep American prestige high and to combat anti-democratic propaganda.

The establishment of a viable economy in Japan is essential to the achievement of US political and economic objectives there. The present scale of economic aid to Japan, far from leading toward such a viable economy, is not enough to prevent continued economic deterioration. Failure of the US to grant economic aid beyond the present scale or complete withdrawal of aid would result in a breakdown, gradual or precipitous, that would represent a complete loss of the American investment in a stable, democratic, and peaceful Japan and would seriously jeopardize the United States program for world-wide economic recovery and political stabilization.

The US is, therefore, faced with the necessity of increasing its economic aid to Japan to such an extent as to permit Japan

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to reach a state of self-support. Such increased aid will require annual appropriations considerably greater than that authorized at present, the expenditure of Japanese-owned convertible assets in Japan, and the encouragement of private loans. In addition, in order to achieve economic recovery in Japan, it will be necessary to obtain the economic cooperation of the countries, particularly those in the Far East, that are potential sources of raw materials and potential markets for Japan.

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REMARKS:

**For preparation of comments and Soviet
functions in the usual format. Com-
ments to be received in Estimates
Group not later than Friday, 22 August.**